

UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

March 1, 2006

In Reply Refer To:  
Southern Natural Gas Company  
Docket No. RP05-684-000

Southern Natural Gas Company  
P.O. Box 2563  
Birmingham, Alabama 35202-2563

Attention: Glenn A. Sheffield  
Director - Rates

Reference: Maintenance Capital Surcharge

Dear Mr. Sheffield:

1. On September 30, 2005, Southern Natural Gas Company (Southern) filed revised tariff sheets to establish an initial maintenance capital surcharge at \$.0152 per Dth pursuant to section 31 of the General Terms and Conditions (GT&C) of its tariff.<sup>1</sup> On October 31, 2005 the Commission issued an order<sup>2</sup> that accepted and suspended the revised tariff sheets, subject to refund and conditions, and subject to further review. The October 31, 2005 Order also allowed parties twenty (20) days to respond to Southern's October 24, 2005 answer to the issues raised by the parties. Based on a review of the pleadings, Southern is directed to file additional information as set forth below.

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<sup>1</sup> The Commission-approved settlement in Docket Nos. RP04-523-000 and RP04-523-001 provided the mechanism to recover certain capital maintenance expenditures. The settlement was approved by a letter order issued on July 13, 2005.

<sup>2</sup> See *Southern Natural Gas Co.*, 113 FERC ¶ 61,112 (2005) (October 31 Order).

2. Nine parties filed comments or protests objecting to the cost support and data contained in Southern's September 30, 2005 filing. In Southern's October 24, 2005 answer to the parties, it responded to questions, provided explanations, and clarified certain issues raised by the parties. Also in Exhibit A of its answer, Southern provided further detailed descriptions of the maintenance capital expenditures in excess of \$250,000 and agreed to provide the same detailed information in future maintenance capital surcharge filings.
3. On November 2, 2005 Southern Cities filed a late motion to intervene. Pursuant to Rule 214 (18 C.F.R. §385.214 (2005)), all timely filed motions to intervene and any motions to intervene out-of-time filed by the issuance date of this order are granted. The Commission finds that since it has not taken final action in this proceeding, and that Southern Cities motion to intervene out of time will not disrupt the proceeding, the late motion to intervene is hereby granted.
4. On November 21, 2005, Peoples Gas System, a Division of Tampa Electric Company (Peoples) filed a response to Southern's answer. Peoples notes that Southern stated in its answer that the settlement cost of service filed in Docket Nos. RP04-523-000 and RP04-523-001 is a "black box" cost of service, and disputes Southern's claim that analysis of the cost of service is not permitted by the settlement. Peoples states that Article IV, section 2 of the settlement provides that customers "shall have the right to (x) challenge the eligibility or prudence of any item that is included in the surcharge(s); [or] (y) take the position that Southern Natural has incorrectly or improperly calculated the surcharge(s) pursuant to the provisions thereof, including, but not limited to, that such surcharge(s) recover costs already included in (i) the Settlement Cost of Service; (ii) other existing surcharges; or (iii) other surcharges set forth in the Settlement Tariff Provisions..."
5. Peoples also requests that Southern provide more detailed information in future maintenance capital surcharge filings to determine whether certain claimed maintenance capital expenditures are eligible or prudent, have not already been included in the settlement cost of service, or otherwise qualify for inclusion in the calculation of the maintenance capital surcharge. Peoples notes that the information contained in Exhibit A of Southern's answer covers approximately 70% of Southern's total maintenance capital expenditures, thereby leaving 30% of the total expenditures without any detailed explanations or descriptions. Peoples states that the Commission should accept Southern's commitment to provide additional detailed descriptions at whatever threshold level it deems appropriate. Further, Peoples claims that the Commission or any party should not be precluded from challenging or requesting additional information with respect to any proposed future expenditures. Finally, Peoples states that with respect to

items that are not clearly identifiable with a particular project, Southern should explain and justify how such costs are allocated between qualifying and non-qualifying matters, *e.g.*, whether any costs are attributable to an expansion of Southern's system.

6. The Commission agrees with Peoples that the Commission or any party shall not be precluded from challenging or requesting additional information with respect to any proposed future expenditures. Additionally, Southern's answer acknowledges the parties' rights to scrutinize the data and dispute Southern's calculations.<sup>3</sup> Therefore, Southern must clearly explain the allocation of qualifying and non-qualifying capital expenditures, *e.g.*, whether any costs are attributable to an expansion of Southern's system, that are included in the instant filing and in future surcharge filings.

7. The Commission notes that in its answer Southern has provided additional detailed information and descriptions in its initial maintenance capital surcharge filing and agrees to provide the same detailed information in future annual surcharge filings for capital maintenance expenditure items in excess of the \$250,000 threshold level. However, the Commission agrees with Peoples that the \$250,000 threshold level covers only 70% of the total maintenance capital surcharge expenditures leaving 30% of the total maintenance capital surcharge expenditures without detailed information or explanation. This percentage level appears to be high when examining Southern's proposed maintenance costs. Based on an analysis of the maintenance capital expenditures shown in Exhibit A, the Commission finds that by lowering the threshold level to include maintenance capital expenditures in excess of a \$50,000 threshold level, slightly more than 90% of the total maintenance capital expenditures would be accounted for. The Commission finds that this \$50,000 threshold level is reasonable because it covers a greater majority of the total capital maintenance expenditures than Southern's \$250,000 threshold level, and provides a more thorough understanding and improved clarity regarding the total capital maintenance expenditures used in Southern's surcharge calculation. Southern is directed to provide the same detailed descriptions for the maintenance capital surcharge expenditures in excess of \$50,000 as it had provided in its

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<sup>3</sup> See page 9 of Southern's answer filed October 24, 2005.

answer in the initial surcharge filing within 30 days of the date of this order. Also, Southern should include detailed descriptions for the maintenance capital surcharge expenditures in excess of \$50,000 in future annual capital maintenance surcharge filings.

By direction of the Commission.

Magalie R. Salas,  
Secretary.